MR. CHAIRMAN: Question No. 230.

*226. [*The questioner (Shri Mohammed Afzal alias Mecm Afzal) was absent. For answer Vide Col...infra*]

*227. [*The questioner (Shri Yerra Narayanaswamy) was absent. For answer Vide Col.....infra.*]

*228. [*The questioner (Shri Rahasbihari Barik) was absent. For answer Vide Col.....infra.*]

*229. [*The questioners (Dr. Murli Manohar Joshi and Shri Triloki Nath Chaturvedi were absent. For answer Vide Col.....infra.*]

Effect of Inflow of Dollars

*230. SHRI P. UPENDRA:
SHRI CHIMANBHAI MEHTA:

Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that inflow of dollars, outside the industrial infrastructure and in the stock exchanges have pushed up inflation;

(b) if so, the details thereof and the manner in which it has pushed up inflation;

(c) whether the inflation has created problems on export front; and

(d) if so, the details thereof?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKHAR MURTHY): (a) to (d) A statement is laid on the Table of the House.

Statement

(a) and (b) The build up in foreign currency assets of the Reserve Bank of India in the first four months of the current financial year (April—July) has been abont dollar 2.4 billion from the level of dollar 15.1 billion at the end of March 1994 to dollar 17.5 billion at the end of July 1994. The inflationary impact of any increase in net foreign exchange assets from large inflow of foreign funds is through its impact on reserve money and monetary expansion. Here, other factors have been in operation as a result of which the reserve money growth has been lower at 7.3 per cent in current financial year up to July 8, 1994 compared to 11.5 per cent growth in the same period of last year. The money supply (M3) growth has also been marginally lower this year upto July 8, compared to the same period last year. Hence the inflationary impact of large foreign funds has been curbed.

In order to mitigate inflationary pressures, the measures envisaged are the following: (i) limiting the Central Government's fiscal deficit to 6 per cent of GDP in 1994-95 as against 7.3 per cent last year; (ii) placing a cap on recourse to ad hoc treasury bills by the Central Government: (iii) active open market operations by the Reserve Bank in Government securities: (iv) raising of the cash-reserve ratio of the scheduled commercial banks; (v) tightening of selective credit controls in the case of certain sensitive commodities; (vi) allowing the import of sugar, raw cotton and edible oils under Open General Licence (OGL) at zero concessional rate of duty; and (vii) active intervention in the foodgrains market by open market sale of rice and wheat through the FCI.

(c) and (d) Inflation adversely affects the competitiveness of exports. However, export performance also depends upon other domestic and international factors.

The comfortable stock of foodgrains and foreign exchange reserves will moderate inflationary and speculative pressures by ensuring supply-side flexibility. The tight monetary policy will restrain the growth of money supply and this along with the Government's commitment to maintain fiscal deficit and to restrain recourse to monestised deficit are expected to keep inflation in check in the coming months.

SHRI P. UPENDRA: Sir, the statement shows that during the current financial year, in the last quarter, from April to July, there has been an increase of 2.4 billion dollars in foreign exchange, a very abnormal increase. Despite the

†The question was actually asked on the floor of the House by Shri P. Upendra.

Minister's efforts to under-estimate the effect of inflation and the inflow of foreign exchange in such large quantities, there are signs that these large inflows are having an adverse impact on the economy of the country. Particularly, during the last three months, there has been an abnormal spurt in the real estate prices in major metropolitan cities like Bombay, Delhi, Bangalore, etc. Also there is a boom in the stock market. I would like to know from the hon. Minister how much, out of this figure of 2.4 billion dollars, of the increase during the last three months, is accounted for by our export earnings and how much by the remittances of the NRIs and in what form. Also, what are the schemes still in operation which facilitate NRI remittances to this country and for what purposes?

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): Sir, with regard to the build-up of reserves of 1,326 million dollars during the period April—June, 1994, the figures that I have show Foreign Institutional Investors' Investment—711 million dollars; GDR issues—299 million dollars; Foreign Direct Investment—168 million dollars; Non-Resident Deposits (All Schemes)—100 million dollars; Trade Balance Deficit—198 million dollars; External Assistance (Net of Loans)—34 million dollars; and others —280 million dollars.

SHRI P. UPENDRA: In the second part of the question, while the Minister has admitted that inflation adversely affects the competitiveness of our exports, he has indicated a number of measures to mitigtae inflationary pressures. But these are usual steps taken by the Government and have nothing to do with the latest situation. Also, the Financial Institutions and others are allowed to buy shares in the secondary market and not in the primary market. That is also one of the reasons for this inflationary trend. Though the Minister took credit during his Budget Speech that he brought inflation down to seven per cent. again, it has gone up to double digits and is likely to increase. What particular steps is the Minister taking to tackle the latest situation arising out of the abnormal increase in the foreign exchange inflow and the increase in money supply?

SHRI MANMOHAN SINGH: Sir, there is no doubt that the iccrease in foreign exchange reserves does add to pressures on reserve money and, other things being equal, it does increasee the amount of liquidity in the economy. But one has to take a total view of the economy. It has been our view that we need to build up out reserves to generate an adequate amount of confidence sn the Indian economy and, that is why, although we have a market-determened exchange rate system, the Reserve Bank of India, in the course of the last one year or so, has been intervening in the market to build up reserves. This, on blance, has, I think, added to the creditworthiness of our country. With regard to Inflation, I share the concern of hon. Members about the acceleratson in the rate of cnflation. Last year the inflation rate had come down to less than eight per cent. This year it is hovering round 10-10.1 per cent. But there are several factors other than increase in the foreign exchange reserves. There have been increases in administered prices. They were effected in January for right reasons, but they do put a pressure on prices. My own feeling is that that pressure will not be operative in the future. There have been, in addition, seasonal pressures, particularly on prices arising out of shortage of suger and shortage of cotton. With the cew crops coming into the market, these pressures will abate and I, therefore, feel reasonably hopeful that the Inflation rate will come down in the coming years.

SHRI CHIMANBHAI MEHTA: Sir, I would like to ask the hon. Minister whether, with an inflatson rate of eight per cent last year, he would be able to bring it down to less than eight per cent, because increase is taking place even beyond this rate and, therefore, the common man is hit. When the foreign money came here in such a big quantity, should he not have taken the

precaution of reducing the monetary expansion so that the inflation comes dswn to less than elght per cent, which he is trying to promise? So, would he try to bring down the monetary expansion and bring down the prices in the near future?

SHRI MANMOHAN SINGH: Sir, we have, in fact, taken steps to moderate the growth of the net Reserve Bank credit to the Central Government. For example, the net Reserve Bank credit to the Central Government in the current financial year, until the month of July, is only 5.5 per cent as against 19.6 per cent during the corresponding period of the previous year. Similarly, the growth of reserve money has also declined in the course of this year from 11.5 per cent. This year, thus far, the growth rate is no more than 7.3 per cent. The Reserve Bank of India, being worried about the monetary expansion, have taken measures to raise the cash reserve ratio, and has immobilized a part of the surplus money available with the banking system. With regard to the general issue, certainly we should aim to bring the inflation rate to much lower than eight per cent, but it takes time to achieve this result. I, however, have no doubt that in the coming months there will be a substantial abatement of inflationary pressures and inflationary expectations.

SHRI MADAN BHATIA: Sir, I should like to be enlightened by the hon. Finance Minister on one aspect. There is growth in production in the industrial and agricultural sectors. There is a tremendous growth in the exports from this country. There is a tremenodus increase in the foreign exchange reserves. Therefore, I believe that the rupee has become very strong qua the foreign currencies. If my understanding is correct, I want the hon. Finance Minister to enlighten why the value of the foreign currencies like pound and dollar continues to remain the same qua the rupee as it was when the rupee was very weak.

SHRI MANMOHAN SINGH: Sir, we unified the exchange rate of the rupee last year. At that time, when the rupee was unified, a lot of our critics predicted that the rupee would depreciate. Some people predicated that the rupte would go down to Rs. 50 to a dollar. Now, in effect, I think, we have proved all those prophets of gloom wrong. The rupee has remained remarkably stable.

It is certainly true that if the Reserve Bank of India had not intervened in the market, the rupee would have further strengthened its value, but, then, we have to worry about the consequences of that strengthening on India's export competitiveness. Therefore, the intervention of the Reserve Bank of India was justified because we did not want India's exoorts to suffer in the process.

MR. CHAIRMAN: The Question Hour is over.

WRITTEN ANSWERS TO QUESTION

Income-tax assessees

*221. SHRI H. HANUMANTHAPPA: Will the Minister of FINANCE be pleased to state:

(a) what is the total number of Income-tax assessees in the country by the end of March, 1994;

(b) what is the number in different slabs; and

(c) the number of arrear cases as on 31st March, 1994 alongwith the outstanding amount and action taken to reduce the number?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M. V. CHANDRASHEKHAR MURTHY): (a) The total number of income-tax assessees as on 31-3-1994 was 102.06 lakhs. In additions there were 13.71 lakhs of salaried assessees, who had paid taxes by way of tax deduction at source and also 1.96 lakhs who had paid tax under the Presumptive Tax Scheme under section 115K of the Income-tax Act, 1961.

(b) Based upon the number of returns processed during the financial year